

## Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 TRSE-00 FRB-01 EA-06 EB-03 SP-02

EURE-00 NSC-05 NSCE-00 INR-05 INRE-00 IO-03 CIAE-00

OMB-01 L-01 SAM-01 SSO-00 /051 W

----- 078990

O R 261124Z AUG 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 2744

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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C O N F I D E N T I A L SECTION 1 OF 2 ROME 12215

LIMDIS

PASS TREASURY FOR WIDMAN; PASS FRB

E.O. 11652: GDS

TAGS: EFIN, IT, IMF, EC

SUBJECT: EC MINISTERS OF FINANCE MEETING AUGUST 24

1. SUMMARY. EC MINISTERS OF FINANCE AGREED ON JOINT  
POSITION ON INTERNATIONAL MONETARY REFORM QUESTION FOR  
UPCOMING IMF ANNUAL MEETING WHICH CALLS FOR COMPROMISE  
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AGREEMENT ON IMF QUOTAS, IMF GOLD, AND CENTRAL BANK GOLD.

THORNY PROBLEM OF FUTURE EXCHANGE RATE REGIME WOULD BE SET ASIDE IN HOPE AGREEMENT COULD BE REACHED BETWEEN WASHINGTON AND JAMAICA MEETINGS OF INTERIM COMMITTEE. MINISTERS ALSO EXCHANGED INFORMATION ON THEIR RESPECTIVE ANTI-RECESSION PROGRAMS. THEY DID NOT DISCUSS QUESTION OF ECONOMIC AND FINANCIAL SUMMIT ORIGINALLY PROPOSED BY FRENCH. END SUMMARY.

2. TRESREPS CALLED ON TREASURY DIRECTOR GENERAL PALUMBO AUGUST 25 AND BANK OF ITALY DIRECTOR GENERAL OSSOLA ON AUGUST 26 FOR DEBRIEFING ON RESULTS OF AUGUST 24 MEETING OF EC MINISTERS OF FINANCE IN VENICE. OSSOLA DESCRIBED MEETING AS FRUITFUL SINCE MINISTERS WERE ABLE TO PERSUADE FRENCH TO ACCEPT IDEA OF SETTING ASIDE DIFFICULT PROBLEM OF FUTURE FOREIGN EXCHANGE REGIME FOR THE MOMENT IN ORDER TO SEEK COMPROMISE ON SMALLER PACKAGE CONSISTING OF AGREEMENT ON IMF QUOTAS, IMF GOLD, AND CENTRAL BANK SETTLEMENTS IN GOLD.

3. FUTURE FOREIGN EXCHANGE REGIME. EC MINISTERS AGREED THAT, FOR TIME BEING, CONFLICT BETWEEN FRENCH POSITION FAVORING RELATIVE FIXITY OF EXCHANGE RATES AND US POSITION (SUPPORTED TO LARGE EXTENT BY OTHER EC MEMBERS) FAVORING CONSIDERABLE FLEXIBILITY COULD NOT BE RESOLVED. FRENCH MINISTER FOURCADE DESCRIBED FRENCH PLAN FOR RETURN TO PARITIES, WHICH HAD BEEN PRESENTED AT AUGUST 11 EC MONETARY COMMITTEE MEETING. OTHER MINISTERS INDICATED THEIR SUPPORT FOR SO-CALLED FORMULA 2 ALTERNATIVE WHEREBY IMF WOULD NOT CHALLENGE OPTION BY COUNTRIES WISHING TO ADOPT FLOATING RATE. MINISTERS THEN AGREED THAT THIS ISSUE NEED NOT BE PART OF COMPROMISE PACKAGE TO BE DISCUSSED IN WASHINGTON BUT FURTHER EFFORT WOULD BE MADE TO SEEK AGREEMENT WITH US AND OTHERS BETWEEN SEPTEMBER MEETING IN WASHINGTON AND JANUARY MEETING IN JAMAICA OF INTERIM COMMITTEE. PALUMBO STATED PERSONAL OPINION THAT IT WOULD NOT BE POSSIBLE TO RECONCILE DIFFERENCES DURING THIS PERIOD. OSSOLA ALSO WONDERED WHETHER US WOULD EVENTUALLY BE PREPARED TO ACCEPT FORMULA 2 SOLUTION.

4. IMF QUOTAS. OSSOLA WAS OPTIMISTIC THAT REASONABLE MEN COULD FIND COMPROMISE AGREEMENT ON QUOTA QUESTION. HE THOUGHT, FRANKLY, THAT IT WAS NOT REASONABLE FOR US TO CONTINUE TO INSIST ON KEEPING 20 PERCENT QUOTA SINCE THIS WOULD SHORTLY

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BE ERODED AS A RESULT OF ACCESSION OF NEW COUNTRIES TO IMF MEMBERSHIP. FURTHERMORE, INCREASE IN QUALIFIED VOTE ON IMPORTANT ISSUES TO 85 PERCENT WOULD PROTECT US VETO POWER. OSSOLA COMMENTED THAT THERE WERE SEVERAL SUBSIDIARY QUOTA PROBLEMS. FRENCH DID NOT WISH TO GO BELOW 5 PERCENT QUOTA FOR POLITICAL AND PUBLIC RELATIONS REASONS. CANADA WAS INSISTING ON INCREASE IN QUOTA, WHICH OSSOLA THOUGHT COULD PERHAPS BE SATISFIED. BELGIUM WAS FEARFUL OF EVENTUAL LOSS

OF ABILITY TO ELECT EXECUTIVE DIRECTOR. OSSOLA THOUGHT THIS FEAR HAD SOME FOUNDATION. WHILE EC WOULD BE PREPARED TO INCREASE NUMBER OF EXECUTIVE DIRECTORS TO 21, US DID NOT LIKE THIS OPTION AND OSSOLA COULD RECOGNIZE THAT THIS WOULD NOT BE A GOOD PRECEDENT. ALSO, THERE WERE SOME PROBLEMS WITH QUOTAS OF OTHER INDUSTRIAL COUNTRIES. OSSOLA SAID THAT A POSSIBLE SOLUTION HAD OCCURRED TO HIM WHICH HE MIGHT PRESENT TO THE EC MONETARY COMMITTEE WHEN IT MEETS IN WASHINGTON ON AUGUST 30 TO CONSIDER IMF QUOTA QUESTION. THIS WOULD BE TO ASK THAT THOSE INDUSTRIAL COUNTRIES WHICH WOULD BE ENTITLED TO SOME INCREASE IN THEIR QUOTAS RENOUNCE PART, OR ALL, OF THIS INCREASE SO AS TO CREATE A "KITTY" OF VOTES TO ALLOCATE TO COUNTRIES WITH PARTICULARLY DIFFICULT QUOTA PROBLEMS. SINCE SUCH A PROPOSAL WOULD REQUIRE SACRIFICES BY SEVERAL EC MEMBER COUNTRIES, OSSOLA WAS SOMEWHAT RELUCTANT TO SUGGEST IT.

5. IMF GOLD. BOTH PALUMBO AND OSSOLA INDICATED THAT MINISTERS AGREED ON PROPOSAL FOR RETENTION OF TWO-THIRDS OF IMF GOLD WITH FUND, RETURN OF ONE-SIXTH OF GOLD TO MEMBER COUNTRIES ACCORDING TO THEIR QUOTAS, AND SALE BY IMF OF ONE-SIXTH OF ITS GOLD TO BENEFIT LDC'S. PALUMBO STRESSED THAT, IN LATTER CASE, SALES WOULD HAVE TO BE REGULATED SO AS NOT TO DRIVE DOWN PRICE OF GOLD IN FREE MARKET NOR TO CREATE DE FACTO OFFICIAL FLOOR PRICE. IN FIRST CASE, DEPRESSED GOLD PRICE WOULD REDUCE BENEFITS AVAILABLE TO LDC'S AND (ALTHOUGH PALUMBO DID NOT SAY SO) THIS WOULD ALSO REDUCE THE VALUE OF OFFICIAL RESERVES OF COUNTRIES HOLDING LARGE AMOUNTS OF GOLD IN THEIR RESERVES, SUCH AS ITALY AND FRANCE.

6. CENTRAL BANK GOLD. EC MINISTERS AGREED THAT COMPROMISE PROPOSAL ON CENTRAL BANK GOLD SETTLEMENTS WOULD CONSIST OF ABOLITION OF OFFICIAL GOLD PRICE, LINKED WITH FREEDOM FOR CENTRAL

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BANKS TO MAKE GOLD SETTLEMENTS AMONG THEMSELVES AND TO BUY AND SELL GOLD IN FREE MARKET. HOWEVER, LATTER FEATURES WOULD BE SUBJECT TO AGREEMENT THAT OFFICIAL GOLD STOCKS WOULD NOT INCREASE OVER INITIAL TWO-YEAR PERIOD AND THAT SETTLEMENTS SHOULD NOT LEAD TO NEW DE FACTO OFFICIAL PRICE. BOTH PALUMBO AND OSSOLA SAID THAT EC PROPOSAL DID NOT INCLUDE LIMITATION THAT SETTLEMENTS COULD ONLY BE MADE IN "EMERGENCY SITUATIONS," AS US HAD INSISTED. THEY THOUGHT THAT, SINCE SECRETARY SIMON'S LATEST CONGRESSIONAL TESTIMONY ON JULY 21 HAD NOT INCLUDED SPECIFIC REFERENCE TO THIS CAVEAT, US POSITION MIGHT BE NEGOTIABLE ON THIS POINT. (TREASATT TOLD OSSOLA THAT HE UNDERSTOOD THAT OMISSION FROM TEXT OF TESTIMONY HAD BEEN INADVERTANT.) OSSOLA SAID THAT EC COULD SIMPLY NOT ACCEPT "EMERGENCY SITUATION" CLAUSE. IF NECESSARY, EC MIGHT AGREE TO COMMITMENT TO CONSULT, IF ANY ACTION BY CENTRAL BANKS

APPEARED TO BE LEADING TO DE FACTO RE-ESTABLISHMENT OF OFFICIAL GOLD PRICE. BOTH PALUMBO AND OSSOLA INSISTED THAT THERE WAS LITTLE DESIRE TO PART OF EC CENTRAL BANKS, IN PRACTICE, TO USE GOLD IN OFFICIAL SETTLEMENTS. IN FACT, COMMUNITY HAD RECENTLY AGREED TO EXCLUDE GOLD FROM SETTLEMENT PROVISIONS OF EC MONETARY COOPERATION FUND.

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OMB-01 L-01 SAM-01 SSO-00 /051 W

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PASS TREASURY FOR WIDMAN; PASS FRB

7. PROCEDURES ON MONETARY REFORM QUESTION. EC MINISTERS  
FORESEE ATTEMPT TO REACH COMPROMISE AGREEMENT ON PRINCIPLE  
IN WASHINGTON ON IMF QUOTA AND TWO TOLD QUESTIONS. THIS SMALL  
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PACKAGE WOULD BE "FORZEN" DURING SEPTEMBER-JANUARY PERIOD  
WHILE FURTHER EFFORT WAS BEING MADE TO RESOLVE FUTURE FOREIGN  
EXCHANGE REGIME QUESTION. AT JAMAICA MEETING IN JANUARY  
AGREEMENT ON MONETARY REFORM PACKAGE, EITHER WITH OR WITHOUT  
RESOLUTION OF FOREIGN EXCHANGE REGIME QUESTION, COULD BE FORMAL-  
IZED AND PUT INTO EFFECT AS SOON AS LEGAL LANGUAGE COULD BE  
DRAWN UP FOR MODIFICATION OF IMF ARTICLES OF AGREEMENT.  
OSSOLA PLANS TO LEAVE ROME FOR WASHINGTON ONE DAY EARLY, ON  
AUGUST 28, IN HOPE OF SEEING TREASURY UNDER SECRETARY YEO,  
IMF MANAGING DIRECTOR WITTEVEEN AND INTERIM COMMITTEE CHAIR-  
MAN AND CANADIAN FINANCE MINISTER TURNER BEFORE G-10 MINISTERIAL  
MEETING ON EVENING OF AUGUST 30. THIS WOULD BE PARTICULARLY  
HELPFUL IF EC MONETARY COMMITTEE IS ABLE TO REACH AGREEMENT  
ON IMF QUOTA QUESTION AT ITS MEETING EARLIER THAT DAY.  
OSSOLA MENTIONED THAT TREASURY MINISTER COLOMBO HAS ALREADY  
SENT BRIEF SUMMARY OF RESULTS OF VENICE MEETING TO MINISTER  
TURNER AND TO CHAIRMAN OF G-10 MINISTERS, MINISTER OHIRA OF  
JAPAN. OSSOLA DOES NOT PLAN TO CALL MEETING OF G-10 DEPUTIES  
PRIOR TO G-10 MINISTERIAL.

8. DISCUSSION OF COORDINATED EC ANTI-RECESSION PROGRAMS.  
EC MINISTERS ALSO DISCUSSED THEIR RESPECTIVE NATIONAL  
PROGRAMS FOR COMBATING CURRENT ECONOMIC RECESSION. AT END  
OF MEETING, THEY RELEASED COMMUNIQUE (REPORTED SEPTEL).  
PALUMBO MADE PITCH TO EFFECT THAT MINISTERS ARE REALLY  
DETERMINED TO COORDINATE THEIR ANTI-RECESSION PACKAGES AND  
NOT JUST TO STAMP NATIONAL PROGRAMS WITH EC INSIGNIA.  
PALUMBO WAS CRITICAL OF MANY COUNTRIES WHICH HAD SOUGHT TO  
ELIMINATE THEIR PETROLEUM DEFICITS THROUGH DRASTIC  
RESTRICTIVE POLICIES, RATHER THAN FINANCING DEFICITS AS  
HAD BEEN RECOMMENDED BY C-20 MINISTERS IN JANUARY 1974.  
EC COUNTRIES WERE NOW PAYING THE PRICE FOR THESE POLICIES  
IN FORM OF ECONOMIC RECESSION. PALUMBO THOUGHT THAT  
GERMAN RECOVERY PROGRAM WAS RATHER SMALL BUT REFLECTED  
FACT THAT THERE WOULD BE ELECTIONS IN GERMANY NEAR FUTURE  
AND INFLATION WAS STILL A BIGGER BUGABOO THAN UNEMPLOYMENT,  
PARTICULARLY SINCE UNEMPLOYMENT AFFECTED FOREIGN WORKERS IN  
GERMANY FIRST. OSSOLA WAS MORE SKEPTICAL ABOUT EC EFFORTS  
TO COORDINATE RECOVERY PACKAGES, POINTING OUT THAT ITALIAN  
PROGRAM WAS ALREADY IN EFFECT UNDER DECREE LAWS.

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9. ECONOMIC AND MONETARY SUMMIT. OSSOLA SAID THAT QUESTION OF ECONOMIC AND MONETARY SUMMIT, SURPRISINGLY, HAD NOT BEEN MENTIONED EITHER AT MINISTERIAL MEETING OR AT LUNCHEON FOR MINISTERS. HOWEVER, HE DID NOT INTERPRET THIS TO MEAN THAT FRENCH HAD GIVEN UP ON CONVOCAION OF SUCH A MEETING. HE MENTIONED PRESS SPECULATION THAT FRENCH MAY WISH TO RAISE EXCHANGE RATE REGIME QUESTION AT SUMMIT MEETING ON GROUNDS THAT HIGH LEVEL POLITICAL DECISION IS ONLY WAY THAT IMPASSE CAN BE BROKEN. ON QUESTION OF ITALIAN PARTICIPATION AT SUMMIT, PALUMBO HAD TOLD TREASATT ON AUGUST 22 THAT GOI HAD FIRM POSITION TO EFFECT THAT ITALY SHOULD BE INVITED TO ANY SUCH SUMMIT AND THAT REPRESENTATION OF SMALLER EC MEMBERS BY CURRENT CHAIRMAN OF EC WAS NOT ADEQUATE SUBSTITUTE. HOWEVER, PALUMBO ADDED THAT ITALIAN POSITION, OF COURSE, WOULD ULTIMATELY HAVE TO CONFORM WITH REALITIES.

10. NEXT MEETINGS. PALUMBO CONFIRMED THAT NEXT MEETINGS OF EC FINANCE MINISTERS WERE SCHEDULED FOR SEPTEMBER 22 IN BRUSSELS AND OCTOBER 20 IN LUXEMBOURG.

11. COMMENT:. IT IS CLEAR FROM TALKS WITH PALUMBO AND OSSOLA THAT EC MINISTERS ARE MORE HOPEFUL THAN HERETOFORE THAT US WILL AGREE TO SMALL REFORM PACKAGE AS OUTLINED ABOVE. WHILE SUBSTANCE OF QUESTION IS NOT OF CRITICAL IMPORTANCE, OSSOLA THOUGHT THAT CONTINUED FAILURE OF MAJOR COUNTRIES TO REACH COMPROMISE WAS HAVING ADVERSE EFFECT ON POLITICAL RELATIONS AND ON PUBLIC OPINION. VOLPE

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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** MINISTERIAL MEETINGS, FINANCIAL REFORMS, MONETARY AGREEMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 26 AUG 1975  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** greeneet  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975ROME12215  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750294-1269  
**From:** ROME  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750817/aaaaaoxz.tel  
**Line Count:** 309  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** LIMDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** LIMDIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** greeneet  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 18 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <18 APR 2003 by CunninFX>; APPROVED <01 OCT 2003 by greeneet>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** EC MINISTERS OF FINANCE MEETING AUGUST 24  
**TAGS:** EFIN, IT, EC, IMF  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006